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OKANAGAN VALLEY TREE FRUIT AUTHORITY

ANNUAL REPORT 1999-2000

A BRITISH COLUMBIA CROWN CORPORATION

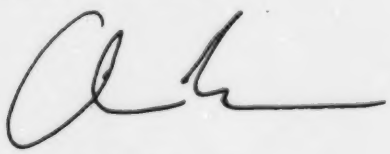
Letter of Transmittal

The Honourable Garde B. Gardom, Q.C.
Lieutenant-Governor
Province of British Columbia

I have the honour to submit the annual report of the Okanagan Valley Tree Fruit Authority (OVTFA) for the fiscal year ending March 31, 2000, including the audited financial statements for the authority.

I want to express my gratitude to the Board of Directors and staff of the OVTFA for their continued efforts on behalf of BC's tree fruit industry.

Respectfully submitted,



Honourable Corky Evans
Minister of Agriculture & Food

Message From the Chair

British Columbia tree fruit growers are continuing to experience both the reward and the pain brought by the consumer's demand for higher quality fruit and newer varieties. Higher prices for the new varieties are welcome but the change in demand also means a reduction in the market share for the traditional varieties. These, unfortunately, still make up too much of our tree fruit production.

1999 was a good year for soft fruit producers. Crop volumes were down but quality was excellent and prices were good. The planting of new cherry orchards with high quality late season varieties continued. Lapins, Sweetheart, and other cherry varieties from the Summerland Research Station plant breeding program led the way. For new apple orchards, Royal Gala continued to be the variety of choice. Interest in other new apple varieties such as British Columbia's locally developed Ambrosia, also increased rapidly.

In 1999, the Okanagan Valley Tree Fruit Authority (OVTFA) assisted 209 growers to replant 571 acres. This is a significant commitment by our growers, following as it does, the very depressed returns for much of the 1998 apple crop. The restoration of the Transitional Production Adjustment Program (TPAP) in 1999 allowed us to assist another 558 growers with their efforts to develop efficient and profitable orchards.

Some growers have contended that a drop in returns for some of the newer varieties has increased the risk of orchard renewal. To this we must acknowledge that tree fruit production is inherently a risky business. The very high returns for varieties such as Royal Gala and Fuji apples could not be expected to maintain at those levels indefinitely. These varieties, however, continue to rapidly expand their share of the overall market and continue to provide growers with returns several times higher than those of the traditional varieties. Of equal importance to the higher prices is the operational efficiency of the new plantings. Modern plantings with their better light interception, also produce more of the higher quality fruit sought by the buyers.

Around the world tree fruit growers have realized the advantages of compact trees and higher density plantings. Consumers continue to choose new varieties for their improved flavour and texture. These trends compliment each other. Many British Columbia growers are world leaders in their response to these trends. The OVTFA is pleased to assist with the process of change and renewal.

Robert F. Dawson
Chair

CEO's Report

This past year has been an exciting and challenging one for the Okanagan Valley Tree Fruit Authority (OVTFA). The OVTFA mandate, that was to have ended on December 31, 2000, was extended to March 31, 2006; funding was, however, provided to reinstate the Transitional Production Adjustment Program (TPAP), and five-year funding to extend the replant program was also announced.

The OVTFA, in partnership with the Ministry of Agriculture and Food (MAF) and the packinghouse field service completed a yield and price survey on a representative number of replanted orchards. The Replant Program Survey report was released in May 1999 and showed that replanting has been successful for most projects but there is a great deal of variation in the economic success of projects. The study showed that the top one third of the orchardists obtained gross revenues of over $13,000 per acre compared to an estimated gross revenue of just over $2,000 per acre for full bearing traditional Red Delicious plantings. The bottom third of the new plantings also had gross revenues similar to those for Red Delicious. This variation is largely the result of variety selection and level of horticultural success.

The OVTFA Board of Directors considered this information in their review of the replant program and concluded that this amount of replanted acreage would not support a viable tree fruit industry. It was the opinion of the Board that 10,000 acres of orchards, replanted to market responsive varieties, are required. This is based on the following assumptions:

- 10,000 acres would produce 40 bins/acre with an estimated 20 packed boxes/bin;
- 800 packed boxes/acre would result in 8 million packed boxes;
- (production currently varies around 6 million packed boxes).

The following would be required to achieve this increase:

1. An extension of the replant program for 5 years to replant an additional 5,000 acres.
2. Targeting the replant grant as an incentive to focus planting at the 1,200 to 1,800 trees per acre density, which was shown in the survey to provide the best economic returns.
3. An increase in the grant from the current level of $3.00 per tree to $4.00 per tree to more effectively assist growers to participate in replanting.

The OVTFA met with the Honourable Corky Evans, Minister of Agriculture and Food, and provided information on the success, and the need, to extend the replant program. In September 1999, the Minister announced an intention to extend the replant program for five years with funding of $25 million and the establishment a new $2 million industry development trust fund. Final approval of these funds by Treasury Board was contingent upon industry developing a revitalization plan that would confirm its commitment to the future of the sector and ensure the funds are used most effectively.

At the same time, the Minister announced that funding was restored to the OVTFA to reinstate the TPAP program and provide retroactive payments to growers who would have qualified for payments under this program. In 1999/00 the OVTFA delivered benefits of $2.8 million to 558 growers under the retroactive TPAP program. The initial payments were sent to growers within 42 days of the announcement by the Minister of Agriculture.

In fiscal year 2000/01 the OVTFA will continue to deliver the TPAP program as part of the orchard revitalization strategy. It is estimated that $1 million will be delivered to growers under this program.

To assist industry to develop the revitalization plan Mr. Robin Junger was hired to engage in broad consultations with the industry. Four research reports were developed to provide current baseline data on the industry as a resource for the consultations. The reports clearly identified that the orchard replant program has contributed to an increase in farm gate revenues from $50 million in 1995 to more than $96 million in 1997. The government programs have resulted in a net investment of more than $57 million in replant activities by farmers.

Mr. Junger consulted with more than 150 individuals and organizations and facilitated an industry roundtable with 50 stakeholders. Mr. Junger also consulted in more detail with other Okanagan and Creston Valley stakeholders from the community (local governments, banks, schools, tourism operations, etc.) to ensure there was broad community support for the tree fruit sector's revitalization plan. As a result of these meetings, he prepared a report that outlined key issues and 27 recommendations related to the replant program and ideas for industry revitalization.

This report was used to obtain final approval from Treasury Board and in March, 2000, Minister Evans announced $25 million would be provided to extend the replant program and $2 million would be available through a trust fund to support industry development. The Minister also announced the extension of the OVTFA mandate to March 31, 2006.

The OVTFA Board of Directors immediately met and developed the policy framework for an enhanced replant program and restructuring of the TPAP. Using this framework the Replant Program and TPAP guidelines were revised and growers were advised of changes within approximately 14 days of the Minister's announcement. The revisions included:

- an increase in the replant grant from $3.00/tree to $4.00/tree and,
- the payment of benefits under TPAP as a single payment of $2,250/acre in the fall following replant.

During this fiscal year (1999/00) the OVTFA provided grants to growers to enable 571 acres to be replanted. The OVTFA had estimated that 650 acres would be replanted. This reduction reflects the difficult economic situation facing tree fruit producers as the result of the low returns from traditional fruit varieties. The OVTFA is forecasting that 750 acres will be replanted in fiscal year 2000/01. This number may be reduced since growers cannot import peach and nectarine trees from the US because of a Canadian federal government restriction due to concerns over virus contamination. Many of these growers are attempting to replace these trees with cherry or apple varieties. This is in part being offset by renewed interest among growers in replanting as a result of the increased benefits available under the replant program.

The OVTFA continues to support the Okanagan-Kootenay Sterile Insect Release Program (SIR) program and will provide a grant of $150,000 as part of the government support announced in 1996. The OVTFA will also provide an additional $135,000 directly to growers who meet compliance standards established by the SIR program. The SIR program is now working very well and providing control of the coddling moth that was expected at the time the program was announced. The program will be in full operation in the central part of the Okanagan this year. When all sectors are under the program the growers will be in a position to market their fruit as being produced with minimum pesticide inputs. The CEO continues to serve in an advisory position on the SIR Board.

I would like to acknowledge the efforts of Ms Lynn Simon, OVTFA Program Manager, without whose hard work, dedication and management skills the OVTFA would not have been able to meet the challenges faced during the past year. Assisting Ms Simon were two dedicated former employees Ms Adrianne Roberts and Ms Deb Gibbard who provided support through contracted services and their efforts were important in allowing us to meet the challenge. Jim Campbell of the Ministry of Agriculture and Food continued to provide technical input to the program that was extremely important to our success.

J.T.R. (Ross) Husdon, P.Ag.
President & CEO

OKANAGAN VALLEY TREE FRUIT AUTHORITY

FINANCIAL STATEMENTS

MARCH 31, 2000

OKANAGAN VALLEY TREE FRUIT AUTHORITY

FINANCIAL STATEMENTS

MARCH 31, 2000

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Kemp Harvey Lister

An Association of Accounting Professionals
Members of the Kemp Harvey Group of
Certified General Accountants

STRENGTH IN NUMBERS

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AUDITORS' REPORT

To the Directors of the Okanagan Valley Tree Fruit Authority:

We have audited the balance sheet of the Okanagan Valley Tree Fruit Authority as at March 31, 2000 and the statements of revenue and expenditure and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles for public sector entities applied on a basis consistent with that of the preceding year.

Harvey Lister Dnc.

Penticton, BC
May 17, 2000

CERTIFIED GENERAL ACCOUNTANTS

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STATEMENT A

OKANAGAN VALLEY TREE FRUIT AUTHORITY
BALANCE SHEET
MARCH 31, 2000

ASSETS

	2000	1999	1998
CURRENT ASSETS			
Cash	$ 49,311	$ 10,218	$ 10,620
Accounts receivable	4,937	1,219	4,118
Replant grant advances	2,384	15,240	63,882
Prepaid expenses	874	489	2,259
Short-term investments - Note 3	1,065,207	114,752	478,396
	1,122,713	141,918	559,275
CAPITAL ASSETS - Notes 2 & 4	15,619	20,942	40,747
	$ 1,138,332	$ 162,860	$ 600,022

LIABILITIES

CURRENT LIABILITIES			
Bank indebtedness - Note 5	$ -	$ 259,494	$ -
Accounts payable	18,843	19,466	244,902
Grants payable	485,857	19,640	51,677
	504,700	298,600	296,579

EQUITY

RETAINED EARNINGS (DEFICIT)			
Appropriated- Note 6	-	-	460,352
Unappropriated	633,632	(135,740)	(156,909)
	633,632	(135,740)	303,443
	$ 1,138,332	$ 162,860	$ 600,022

GUARANTEES - Note 7

APPROVED ON BEHALF OF THE BOARD

See accompanying notes to financial statements

STATEMENT B

OKANAGAN VALLEY TREE FRUIT AUTHORITY
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 2000

	2000	1999	1998
REVENUE - Note 8	$ 6,869,827	$ 2,037,100	$ 2,192,652
EXPENDITURE			
Orchard renovation			
Replant grants	1,552,868	1,625,110	2,819,044
Financial security	4,191,393	(1,047)	(23,170)
Program services and administration	206,194	197,320	178,058
Sterile Insect Release Program	150,000	650,000	190,000
Transition costs - Note 9	-	4,900	277,233
	6,100,455	2,476,283	3,441,165
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE	769,372	(439,183)	(1,248,513)
RETAINED EARNINGS (DEFICIT), beginning of year	(135,740)	303,443	1,551,956
RETAINED EARNINGS (DEFICIT), end of year	$ 633,632	$ (135,740)	$ 303,443

See accompanying notes to financial statements

STATEMENT C

OKANAGAN VALLEY TREE FRUIT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2000

	2000	1999	1998
OPERATIONS			
Receipts from revenue	$ 6,866,109	$ 2,039,999	$ 2,238,278
Payments of grants	(5,415,188)	(2,257,458)	(3,804,404)
Payments to suppliers for goods and services	(151,621)	(174,200)	(152,334)
Payments to and on behalf of employees	(49,291)	(243,396)	(192,502)
Changes in sales taxes	(7)	(834)	841
CASH PROVIDED (USED)	1,250,002	(635,889)	(1,910,121)
INVESTMENTS			
Proceeds from (purchase of) capital assets, net	(960)	12,349	(163)
CASH PROVIDED (USED)	(960)	12,349	(163)
INCREASE (DECREASE) IN CASH	1,249,042	(623,540)	(1,910,284)
BEGINNING CASH	(134,524)	489,016	2,399,300
ENDING CASH	$ 1,114,518	$ (134,524)	$ 489,016
REPRESENTED BY			
Cash	$ 49,311	$ 10,218	$ 10,620
Short-term investments	1,065,207	114,752	478,396
Bank revolving loan	-	(259,494)	-
	$ 1,114,518	$ (134,524)	$ 489,016

See accompanying notes to financial statements

OKANAGAN VALLEY TREE FRUIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2000

Note 1 AUTHORITY AND RELATED PARTIES

The Okanagan Valley Tree Fruit Authority Act came into force on August 10, 1990. The mandate of the Authority is to ensure an efficient and co-ordinated approach to the revitalization of the tree fruit industry in the Interior of British Columbia. The Okanagan Valley Tree Fruit Authority Act, originally prescribed for repeal on December 31, 2000, was extended to March 31, 2006 by Order of the Lieutenant-Governor in Council on March 30, 2000. A Memorandum of Understanding between the Authority and the Ministry of Agriculture, Fisheries and Food, Province of British Columbia, defines the roles and responsibilities of each organization.

The Authority carries out its responsibility for the revitalization of the tree fruit industry principally through its Orchard Replant Program, and during the current year, through the reinstatement of the Transitional Production Adjustment Program (TPAP).

The Authority receives the majority of its revenue from the Province of British Columbia, on which it is dependent for the continuance of its operations.

Note 2 SIGNIFICANT ACCOUNTING POLICIES

a) Capital Assets

During 1999, in accordance with new accounting policies recommended by the Public Sector Accounting and Auditing Standards Committee of the Canadian Institute of Chartered Accountants, the Authority changed its policy from expensing capital assets in the year of acquisition to capitalizing them and amortizing them in accordance with their estimated useful lives and residual values. This policy was applied retroactively, resulting in the restatement of prior years' figures.

b) Amortization

Amortization of capital assets has been recorded using the declining balance method at the following annual rates:

Furniture and equipment	20 %
Computer equipment	30 %

Note 3 SHORT-TERM INVESTMENTS

The short-term investments consist of units in the money market unitized fund administered by the British Columbia Investment Management Corporation. The market value of the investments as at March 31, 2000 was $1,065,438.

Note 4 CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2000	Net Book Value 1999	Net Book Value 1998
Furniture and equipment	$ 27,536	$ 21,833	$ 5,703	$ 6,775	$ 10,186
Computer equipment	153,443	143,527	9,916	14,167	18,992
Automotive equipment	-	-	-	-	11,569
	$ 180,979	$ 165,360	$ 15,619	$ 20,942	$ 40,747

Note 5 BANK INDEBTEDNESS

The bank indebtedness, an operating line of credit with an authorized limit of $500,000 payable to the Canadian Imperial Bank of Commerce, was repaid in full during the year.

Note 6 RETAINED EARNINGS

The appropriated retained earnings represented the unexpended portion of special payments made by the Ministry of Agriculture, Fisheries and Food of the Province of British Columbia during the year ended March 31, 1995. These funds were appropriated specifically for the Sterile Insect Release Program and were remitted in full during 1999.

Note 7 GUARANTEES

Under the Replant Loan Guarantee Program, the Authority has an agreement with members of the Canadian Bankers Association whereby the Authority will guarantee a portion of a qualifying loan to a grower. Qualifying loans currently in place total $187,000. Under the Vendor Mortgage Guarantee Program, the total of mortgage guarantees is $218,842. During 1998 both programs were terminated; no new guarantees will be provided by the Authority but the existing agreements will remain in place.

Note 8 REVENUE

	2000	1999	1998
Contribution, British Columbia Ministry of Agriculture, Fisheries and Food	$ 6,800,000	$ 2,000,000	$ 2,000,000
Investment income	69,487	37,100	192,652
Other	340	-	-
	$ 6,869,827	2,037,100	$ 2,192,652

Note 9 TRANSITION COSTS

Transition costs were incurred by the Authority in order to achieve the down sizing of its operations during the fiscal year ended March 31, 1997, and resulted from termination agreements with employees and contractors, and the disposal of capital assets.

Note 10 PENSION PLAN

The Authority and its employee contribute to the Public Service Superannuation Plan administered by the Superannuation Commission of the Provincial Government. The Plan is a defined benefit pension plan, and the Province of British Columbia has statutory responsibility for any unfunded liability of the Plan.